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RUEHBR/AMEMBASSY BRASILIA 5967
RUEHBU/AMEMBASSY BUENOS AIRES 1652
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RUEHPE/AMEMBASSY LIMA 0833
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RHEBAAA/DEPT OF ENERGY
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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001577

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ENERGY FOR CDAY AND ALOCKWOOD
NSC FOR JCARDENAS AND JSHRIER

E.O. 12958: DECL: 01/12/2017
TAGS: EPET ENRG EINV ECON VE
SUBJECT: CHEVRON DISCUSSES JOINT VENTURES' STRUCTURE

REF: A. CARACAS 1314

¶B. CARACAS 1393
¶C. CARACAS 1466

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

¶1. (C) SUMMARY: Due to concerns over Washington's understanding of its Venezuelan investments and the Foreign Corrupt Practices Act, Chevron met with Post on August 7 to discuss the nature of its Venezuelan investments. Chevron's two joint ventures are equity companies that are subject to Venezuelan law and accounting principles. Chevron does not fund the companies and is merely a shareholder. The companies carry out social responsibility projects in order to meet the terms of a one percent tax on gross revenues. Creditors called the loan on the former Hamaca strategic association but Hamaca paid the loan off with escrow account funds. Chevron expects major international and national oil companies to begin Faja projects once the BRV has settled ExxonMobil and ConocoPhillip's outstanding claims. END SUMMARY

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JOINT VENTURES 101
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¶2. (C) Petroleum Attache met with Chevron Latin America President Ali Moshiri (strictly protect throughout) on August 7 at Moshiri's request to discuss the basic structure of Chevron's two Venezuelan joint ventures, Petroboscan and Petropiar. Petroboscan was created from the Boscan operating service agreement field last year. Petropiar is in the process of being formed from the Hamaca strategic association. Moshiri began the meeting by noting that Chevron is concerned that policymakers in Washington do not fully understand the nature of Chevron's two joint ventures. As a result, Washington may have concerns over the application of the Foreign Corrupt Practices Act to Chevron's Venezuelan investments. Moshiri stated that he will be

traveling to Washington in late September or early October to brief policymakers in person but wished to discuss the issue with Post so that we could provide Washington with a general overview beforehand.

¶3. (C) Moshiri stated both Petroboscan and Petropiar are Venezuelan equity companies. As such, they are subject to Venezuelan law and accounting principles. In the case of Petroboscan, Chevron holds Class B shares in the company and CVP, a PDVSA affiliate, holds Class A shares. The Petroboscan board is split in a 3 to 2 ratio with CVP holding the majority. Chevron's representatives consist of an employee assigned to Venezuela and one outside employee. The companies are responsible for paying all taxes and can secure financing in their own names. All liabilities rest with the equity companies. Chevron does not provide any operating or capital expenditures to the company. It merely receives dividends. Moshiri then noted that Chevron received its Petroboscan dividends three weeks ago.

¶4. (C) Moshiri candidly stated that Chevron hopes the joint ventures significantly increase their leverage. Increasing their debt levels substantially would allow the joint ventures to pay out larger dividends. (COMMENT: We note that high debt levels coupled with increased dividends would also lessen the pain of any nationalization of Chevron's stakes in the joint ventures. In essence, the joint ventures would be replacing capital with debt. END COMMENT)

¶5. (C) Moshiri stressed, as he has in the past (Reftel A), that both joint ventures' business plans required 100% board approval. The joint ventures are subject to a one percent social responsibility tax on gross revenue. They satisfy the



tax by carrying out projects. The projects are part of the business plan and are subject to board approval. If Chevron does not agree to a project, the joint venture will not carry it out but PDVSA would still be free to do it on its own. Moshiri stressed that Chevron seeks to avoid paying cash in order to meet the tax obligation. (COMMENT: As noted in Reftel B, we are not sure that the provisions requiring 100% board approval give Chevron the degree of protection that it believes it has due to the creation of the new state planning commission. END COMMENT).

¶6. (C) Moshiri stated Chevron is currently seeking guidance on whether the tax obligation rolls over from one year to the next. For example, if Petroboscan's obligation is 20 million USD in 2007 and only 10 million USD in projects are carried out, it is not clear if Petroboscan's 2008 obligation would be 20 million USD plus the 10 million USD remaining from ¶2007. Moshiri noted Chevron approaches the science and technology tax, which is also based on gross revenue, in the same way. Rather than paying cash, the joint ventures carry out projects that qualify for tax credit. For example, Moshiri stated steam injection projects currently meet the tax's requirements for credit. Moshiri opined that the BRV will completely modify the social responsibility tax in the next year or two due to the fact that the joint ventures are incapable of carrying out the projects as well as their oil operations. He believes the BRV will eventually require cash payments.

¶7. (C) Moshiri also noted, as he has in the past (Reftel A), that Chevron employees handle both joint ventures' finances and operations. However, he later admitted that PDVSA could replace the joint ventures' finance managers with PDVSA employees and there was very little Chevron could do about it.

¶8. (C) Moshiri concluded his discussion of the joint ventures' structure by noting Chevron is currently trying to teach its Venezuelan interlocutors (both PDVSA and the tax authorities) how an equity company operates. Moshiri stated he does not believe BRV officials understand that Chevron

will no longer be paying taxes directly or providing the joint ventures with funds for operational or capital expenditures. He added he believes BRV tax officials will be surprised when they no longer receive large checks directly from Chevron. Chevron has made it clear that the joint ventures alone are responsible for their tax liabilities. Moshiri claimed that the new joint venture arrangement was "bad for the country but good for us" since it significantly reduced Chevron's liabilities and commitments in Venezuela.

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THE FUTURE OF THE FAJA
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¶9. (C) Moshiri stated creditors recently called the Hamaca strategic association's loan. He stated the strategic association was able to pay off the loan without any difficulty with funds from its escrow account. Moshiri stated the default was basically irrelevant since the parties were going to have to renegotiate the loan anyway due to the fact that Hamaca will no longer exist as a legal entity. (COMMENT: In a separate meeting on August 7, Richard Sentkar, Paribas' Venezuelan representative, (strictly protect throughout) told Econoffs that Sincor's loan was currently being renegotiated. He stated the terms of the new loan for the joint venture that will replace Sincor will be "sexier" in order to retain members of the original loan syndicate. He added, however, that he expected the composition of the new syndicate to be different. He also claimed that Petrozuata's creditors were renegotiating the terms of its financing. END COMMENT).



¶10. (C) Moshiri believes that the BRV will be announcing major Faja projects once it settles the terms of ExxonMobil and ConocoPhillip's outstanding claims arising from the expropriation of their Venezuelan projects. He said the prime candidates for new projects were Petrobras, Shell, and Repsol YPF. He later stated the Indians were also prime candidates due to their deep pockets. He noted the Indians have been willing to pay premiums for assets. He added that the Russians and Chinese were also second-tier candidates for major projects.

¶11. (C) Moshiri repeated his previous concern that a state oil company would seek a minority position in the former Hamaca strategic association (Reftel A). He confided that Chevron had a "preemptive right" that would protect it if a national oil company tried to invest in Hamaca. Moshiri did not elaborate on the nature of the right, but we assume from the context of his comments that it is a right of first refusal.

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PDVSA SERVICES
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¶12. (C) When asked about recent announcements that PDVSA was creating seven new affiliates that will handle everything from gas distribution to agriculture and construction (Reftel C), Moshiri replied that he thought most of the new enterprises would be "still-born" due to PDVSA's lack of human capital. He stated he believes PDVSA Services, a national oil services company, will see the light of day. According to Moshiri, a former Pequiven (the state petrochemical company) president has been brought out of retirement to run PDVSA Services. Moshiri stated he believes PDVSA Vice President Luis Vierma's recent statements about an operational emergency at PDVSA (Reftel C) were merely an attempt to set the stage for the creation of PDVSA Services.

FRENCH